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WHITE HOUSE FOR USTR LAURIE-ANN AGAMA
DEPT EEB FOR USITC BRENDAN LYNCH AND MICHAEL FERRANTINO

SIPDIS

E.O. 12958: N/A

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SUBJECT: GHANA AGRICULTURAL AND RURAL SECTOR HIGHLIGHTS, DECEMBER 2008

1. SUMMARY:

1A. Ghana has benefitted this year from higher cocoa prices and increased U.S. investment in cocoa processing facilities.

1B. The EU and Ghana signed an agreement to combat the export of illicit timber to be implemented in 2009. This could potentially impact more than 50 percent of Ghana's timber exports, or shift exports to less restrictive markets.

1C. Notwithstanding increased input costs, Ghana's agricultural productivity is expected to rise in 2008. The performance is partly explained by 2007's poor environmental conditions; in 2008 Ghana's farms benefitted from favorable weather. In a bit of last-minute vote seeking, President Kufuor promised an expanded MCC rollout in agricultural areas of the country despite a lack of funding.

1A. U.S. Investment Boosts Cocoa Economy

12. Cocoa: Ghana has benefitted from a 36 percent increase in the market price of cocoa, up to GH Cedis 1,632 per metric ton for the 2008/2009 cocoa season. The GOG announced plans to improve the roads used to transport cocoa from farms to export and processing facilities. The GOG has also agreed to pursue the goal of domestic value-added processing of more than 50 percent of Ghana's cocoa production by the middle of next year - an achievable target (current capacity exists for processing up to 40 percent of the annual cocoa crop).

13. U.S. investment in the cocoa sector increased in the past month: Cargill has completed a 60,000-ton capacity cocoa processing factory in Accra's port of Tema that is expected to begin operations in November. Agribusiness leader Archer Daniels Midland (ADM) is expected to begin operating its own processing facility next year in Kumasi, Ghana's second city. This new U.S. investment in the cocoa sector is anticipated to bring Ghana's processing capacity to 380,000 tons.

14. COMMENT: As commodity prices rise, optimism comes easily to Ghana's Cocoa Board, COCOBOD, which tightly controls the cocoa export market through centralized purchasing mechanisms. While the new U.S. investment in processing represents a solid increase above current levels, Ghana has also ambitiously targeted an increase in overall cocoa bean production to 1 million tons, an implausible rise from International Cocoa Organization 2008-9 cocoa year projections of 747,000 tons. END COMMENT.

B. EU-Ghana Agreement on Illicit Timber

15. The Forestry Research Institute of Ghana (FORIG) reports that poor logging practices, over-exploitation of forest reserves, illegal chain saw lumbering and firewood extraction have led to the depletion of 85 percent of Ghana's forest reserves. World Bank estimates suggest that 60 percent of logging in West Africa in recent years has been conducted illegally.

16. In September 2008, the GoG signed a trade agreement with the European Union (EU) to combat the exports of illegal timber. The agreement is expected to commence in late 2009, and originates from the European Commission's 2003 Action Plan on Forest Law Enforcement, Governance and Trade (FLEGT.) After a 21 month transition process, the agreement requires Ghana to implement a transparent system for collecting timber taxes and to enforce better compliance with forest sector laws. The agreement also permits the EU to install border measures that will ensure that unlicensed Ghanaian wood is not imported into the European market. COMMENT: This agreement could have a significant impact in Ghana, given that Europe accounts for more than 50 percent of Ghana's timber exports. Alternatively, it could simply lead to the redirection of timber exports to less restrictive markets. END COMMENT.

C. Agriculture: Higher Costs, Better Weather & Political Liberties

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17. Ghana's agriculture sector was hurt in 2008 by rising costs of inputs such as fuel, seeds, fertilizers, fishing gear and agricultural machines. Nonetheless, rates of agricultural growth are predicted to increase for 2008. Floods and droughts made 2007 a bad year; agricultural growth rates fell by 3.1 percent from the revised growth rate of 4.5 percent in 2006. For 2008 (according to the Statistics, Research and Information Department at the Ministry of Food and Agriculture), agricultural growth rates and food production are expected to rise on the basis of favorable environmental conditions. In the Northern Region, which was impacted in 2007 very severely, production of maize was expected to increase from 88,038 tons in 2007 to 131,859 tons this year. Likewise, the production of rice in Northern is estimated to increase from 65,532 tons in 2007 to 105,496 tons in 2008.

18. In response to the global food crisis and increased commodity prices, the GOG has reduced import tariffs on rice, wheat, yellow maize and vegetable oils. It has also initiated a fertilizer subsidy program, to alleviate 2008's 40 percent price rise.

19. On November 8, 2008 President Kufuor announced at a Farmers' Day celebration in Techiman that the Millennium Challenge Account would be rolled out to cover additional districts in Brong Ahafo and Western regions to increase food, livestock and fish production. This statement was slightly misleading. The Millennium Challenge Corporation (MCC) Compact cannot be extended to additional districts (i.e. Brong Ahafo and Western regions). MCC's national implementing entity in Ghana is the Millennium Development Authority (MiDA), an authority of Government of Ghana created by an Act of Parliament. Pursuant to its domestic mandate, MiDA has the legal capacity to solicit and manage funds from sources beyond the MCC. However, to date, no additional revenue streams have been identified.

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